Using poverty reduction policies in the fight against COVID-19

by Dr. Katrin Oemmelen

The results of a six-year research project in Namibia shows that access to financial tools such as universal basic income and microcredit, in combination with financial literacy, can have a measurable impact in Namibia, especially during the COVID-19 crisis and corresponding economic shutdown.

Key words: financial tools; basic income; microcredit; Namibia.

Introduction

This research summary distills the results of research conducted by Dr. Katrin Oemmelen from 2011 to 2017. Dr. Oemmelen compared two instruments of economic development —a universal basic income and microcredit— and analyzed the related effects of monetary transfer payments on the everyday financial decision-making of participants in two pilot projects. Specifically, it examines the Basic Income Grant (BIG) and Koshi Yomuti (KY), examples of universal basic income and microcredit, respectively. Both projects were conducted in Namibia as part of German development work; research was conducted independently in conjunction with doctoral studies at the Ruhr University of Bochum.

The first project, the Basic Income Grant (BIG), was a two-year pilot project that granted a universal basic income from January 2008 to December 2009 in the village of Otjivero/Omitara near Namibia's capital, Windhoek. Each of the roughly 1,000 participants was paid 100 Namibian dollars (N$) every month, roughly 10 Euro at the time, for the duration of the project. BIG focused on testing the feasibility of universal basic income at a national scale in Namibia as well as its effects related to poverty reduction. BIG was financed primarily through the German Evangelical Church, as well as a limited number of individual donations. Project implementation was managed by the Basic Income Grant Coalition.

The second project, Koshi Yomuti (KY), was initiated by the German Development Fund in 2005 as a pilot introduction to the establishment of a microcredit bank. The project, whose name means "banking under the tree," paid microcredit starting at 100 N$ to participants until the bank's official formation in 2010. Project participation was thus tied to membership to a lending group. Loans were not granted to individuals, but exclusively to groups. During the pilot phase, the focus was on testing the adaptability of the microfinance model, which originated in Southeast Asia, to a sparsely populated part of Africa. The project was financed by the German organization for international development (GIZ).

The case study research used an exploratory approach and took place in both Germany and Namibia. The research design used mixed methods.

Table 1: Overview of research methods

Phase	Methods	Goal
(1) MIKROLEVEL	open-ended expert interviews (qualitative); 8 interviews	exploration
(2) MAKROLEVEL	questionnaire (quantitative); 214 respondents	knowlegde generation
(3) MIKROLEVEL	structured expert interviews (qualitative); 24 interviews	verification and supplementation of results from phase 2

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Based on the results of phase 2, the two projects were deemed compatible and thus comparable for study. In total, 214 people were interviewed using a quantitative questionnaire (101 BIG and 113 KY). The interdisciplinary and intercultural approach minimized possible cultural misunderstanding.

Findings

Generally, the results of the analysis demonstrate that both BIG and KY are strongly characterized by social and family structures; especially by extended families. The relative importance of the money's origin —i.e., as a direct payment through BIG or microcredit through KY— was much smaller than theory would suggest. Both former BIG and KY participants acknowledged using the available money in the same ways during times of crisis, regardless of the source.

1. The basic amount

Logistic regression considered the research participants' median income distribution, which shows that

Koshi Yomuti recipients had on average a monthly income of 860 N$ before the project, about the same as BIG participants, with 870 N$ during the project. This suggests that there is a basic amount, above which available money was no longer used for short-term emergencies, but could be invested in activities that increase participants' income. Participants thus could move beyond worrying about basic survival to think about such longer-term investments. In addition, this basic amount can be connected to long-term successful financial management. Above this basic amount, participants' financial flexibility—and with it their long-term economic success—increased drastically.

2. The multi-level cash concept

The key finding of this research was the development of the "multi-level cash concept." This uses the results of a SWOT analysis of key characteristics of BIG and Koshi Yomuti. It brings universal basic income and microcredit into a new, connected concept. This multi-level cash concept (see figure) is an innovative explanatory model that highlights the strengths and opportunities of both projects in and for Namibia. In addition, this model seeks to utilize the weaknesses and threats found in both projects as existing experiences.

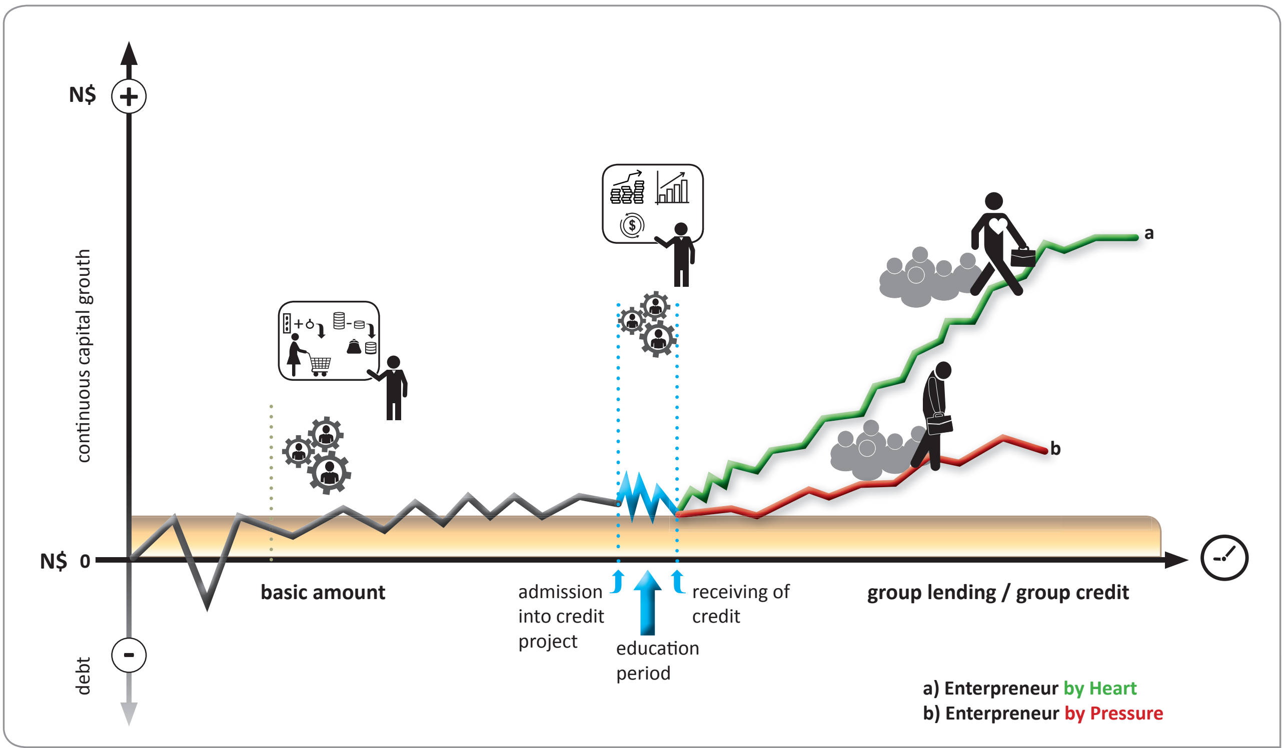
The multi-level cash concept takes into account the research findings from the two case studies to present a strategic solution for future transfer payment projects in Namibia. The figure summarizes how the model works:

The multi-level cash concept finds that a promising approach for future transfer payment projects —whether from the Namibian government or development work— would combine discrete elements from BIG and the pilot phase of Koshi Yomuti, respectively.

BIG demonstrated that a relationship to money was effective in the long term —with the requisite financial highs and lows— requires more than available cash. A combination of cash availability and proper skills and financial literacy appear critical for successful financial decision-making. This reflects the concept of capability developed by Amartya Sen. Capacity presumes that the ability to attain resources —here, the availability of funds— depends on both skills and abilities.

In addition, the research showed that societal acceptance is required to anchor normative and political concepts like basic income in a society. The largest obstacle to acceptance appeared to be the lack of required service linked to payment. The multi-level cash concept imagines this service as an educational requirement in the form of theoretical and practical personal financial literacy training.

Tying such an educational requirement to receipt of a basic income would allow regular lessons for adults as well as students, for example through courses such as "money" or "economics" in school. Including personal financial literacy education as part of general primary or secondary education has been proposed for several years. The research results demonstrate



Scource: Concept and Illustration by Katrin Oemmelen 2020 how sensible this approach is, because they highlight the unmistakable influence of such financial literacy education on an individual's long-term financial success. This finding is supported by the qualitative content analysis, which found that relevant knowledge, even if not explicitly named, played a critical role in an individual's actions. Fundamental education in personal financial management could be the "drivers' license" for sustainable personal financial management. Gaining fundamental financial literacy, e.g. through elementary education or regular lessons, could be an important tool to nurture individual development that can lead to increased personal responsibility, emancipation, and increased engagement in society.

Because Namibian society is based on agriculture and extended families with family-based social structures that are practiced beyond rural areas and into cities, the multi-level cash concept sees a payment — following the BIG concept— for persons up to their sixtieth birthday who live in Namibia and have Namibian citizenship. A payment for this target group would be very close to family money. Beyond defining the target group —if the Namibian government were to cover the costs of implementation— a government-based social security system should be realized in Namibia that reduces extreme poverty. Since poverty reduction is one of the focus areas of the current administration, making creation of e.g. a Ministry of Poverty Eradication a reasonable proposal.

The third and key determining characteristic of the multi-level cash concept is the regularity of payments, with no defined end date. Regular and reliable payments are important for two reasons. First, while the BIG pilot phase was starting, participants began thinking about concrete uses in their budget. This could include new regular purchases or saving a certain amount of money in order to make a larger purchase, and highlights purposeful financial planning that would be hindered by irregular or time-delimited payments. The second argument for regular payments relates to the concept of mental accounting. According to this concept, irregular, unpredictable, or random sources of income such as gifts or profits are more easily spent on short-term indulgences. Unpredictable income is thus booked under a different mental account than regular income. The regularity of payment allows a person to mentally add the income to a predictable mental account. This change in mental accounting also changes the potential use toward something more long-term.

The multi-level cash concept acts on two points identified as opportunities in the SWOT analysis. First, microcredit presents the opportunity to bridge income gaps in times of crisis and thus contributes to reduced vulnerability. Second, the multi-level cash concept relates to the Namibian government's goal of strengthening the country's micro-, small- and medium-sized business enterprises (MSME).

From the author's perspective, implementation of a multi-level cash concept would not necessarily require a functioning financial sector in Namibia. A project like Koshi Yomuti, which focused on group microcredit and included financial literacy education as a prerequisite in its pilot phase, could include a subsequent phase of basic income. For this, it would be necessary to adjust Namibia's financial market regulations. It would also benefit from close cooperation between local actors — money lenders, government agencies, and regulators.

The figure also presents two types of borrowers, whose financial success progresses differently after receiving credit. The author refers to these two borrower as "entrepreneur by heart" and "entrepreneur by pressure." The multi-level cash concept summarizes these two types of entrepreneurs in the Namibian context as follows: the first is someone whose heart and soul are fully invested in founding a business. These entrepreneurs by heart include for example the few founders in the BIG pilot project who decided to become self-employed. The second borrower type, the entrepreneur by pressure, is someone who is forced into self-employment due to a lack of opportunities in the Namibian job market. To this person, self-employment is the only option, because, despite the lack of jobs, credit is still available. These borrowers would likely end their self-employment as soon as they found an adequate job offer.

The two borrower types can be differentiated not merely in their posture, but more importantly in the ways in which they could come out of debt. The entrepreneur by heart chooses credit and with it self-employment, because s/he wants to be self-sufficient. The entrepreneur by pressure, by contrast, sees self-employment as a transition phase on the way to stable employment. In Namibia, the majority of borrower could be seen as entrepreneurs by pressure.

Forecast for the 2020 crisis

Nearly three decades after Namibia's independence, a large percentage of the country's working-age adults are still in the informal economy or subsistence farmers. The MSME sector, whose boundary to the informal economy is often fluid, has not expanded much despite state and international development programs. Sales are low. An extremely small internal market and the population's weak purchasing power further slow economic growth. Because the poorest remain in rural areas and are largely immobile, the country's rural areas are heavily hit by poverty and thus remain a key area for development.

The Namibian people are calling loudly for a stronger state with a strong president in reaction to the current crisis. Such a strong state could create and finance a social security system that included provision of a universal basic income. This could be provided operationally through election offices, where registration and document checks to confirm a person's identity are standard practice. A monthly basic income payment could be handled through a semi-public organization such as NamPost, which has a relatively large network of branches. In addition, funds could be developed such that Namibians who did not wish to receive a basic income could transfer their payment to a designated project. Such pooled funds could provide financial support for selected social and other local initiatives. Financial support payments could be administered through official calls, for example, and would thus be similar to a national crowdfunding program. In this way, administration costs could be kept to a minimum.

In addition to social services, Namibia should re-invest in microfinance projects. A microfinance project in the sense of a "back to the roots of Koshi Yomuti" would be desirable, because the pilot project could have positive effects both on participants as well as local and to some extent even the regional economy. The author estimates that there are medium- and long-term possibilities in establishing a microcredit organization that operated like a social business and earned enough money through provision of products and services in order to cover its costs. Such a microcredit organization could focus more on group financing. A return to local consulting — in the sense of Koshi Yomuti's "banking under the tree"— would be a good idea in the Namibian context and could be given special attention. Establishing such a microcredit organization would require changes to market regulation.

Both the introduction of a social security system with a universal basic income as well as the establishment of a microcredit organization should include telecommunications technology as a determining economic factor. Such technology can help overcome limiting geographic circumstances. In addition, e-wallet components that are compatible with non-smartphones should be integrated as necessary. Financial literacy could be provided this way as well. The importance of financial literacy education will only increase with the increased access to credit and the expansion of cashless money transfers. Combining these two financial tools could help Namibians through the current public health crisis as well as improve their financial stability well into the future.

More information and a comprehensive analysis available at:
https://hss-opus.ub.ruhr-uni-bochum.de/opus4/frontdoor/index/index/docId/6545

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